Table 10: Century Is the 10th Largest ILEC in a Highly Fragmented Industry

($ in millions)

Rank		1997 Access Lines	1997 Operating Revenues	Market Cap. as of 7/06/98
1	Bell Atlantic Corp.	39,714	30,277	$73,088
2	SBC Communications	33,443	24,856	74,677
3	BellSouth Corp.	23,201	20,561	66,087
4	GTE Corp. (domestic switched lines only)	21,539	23,260	54,543
5	Ameritech (agreed to be acquired by SBC)	20,544	15,998	50,584
6	U S West, Inc.	16,107	11,709	24,845
7	Sprint Corp.	7,400	14,874	30,430
8	Southern New England Telephone Co. (agreed to be acquired by SBC)	2,286	2,022	4,517
9	ALLTEL Corp.	1,789	3,263	8,208
10	**Century Telephone Enterprises, Inc.**	**1,203**	**902**	**4,349**
11	Puerto Rico Telephone Authority	NA	NA	NA
12	Cincinnati Bell, Inc.	1,005	1,757	3,759
13	Frontier Corp.	999	2,353	5,251
14	Citizens Utilities Co.	874	1,394	3,759
15	Telephone & Data Systems, Inc.	516	1,471	2,465
16	Aliant Communications Co.	273	208	998
17	Commonwealth Telephone	259	197	486

Source: USTA, company reports, and JPMS estimates.
Note: Century 1997 revenues include only one month of PTI revenues. The majority of the remaining 980+ operators have fewer than 30,000 lines each.

Century's Regulatory Environment Is Very Attractive

Century's regulatory environment is significantly different from the RBOCs in particular – and even GTE to a certain extent – because Century is a small, rural, independent telecom carrier. By virtue of being small and rural, Century is exempt from the most onerous parts of the Telecom Act of 1996 – Sections 251 and 252 – which relate to interconnection requirements and procedures for negotiation, arbitration, and approval of agreements. Therefore Century is not obligated to resell its services at a discount, provide number portability, or interconnection.

Rural carriers are also protected from major changes in Universal Service subsidies, and because Century is federally regulated under rate of return, it is also exempt from the May 1997 access charge reforms. Finally, because Century is an independent carrier, it is already allowed into long distance.

Protection From S. 251 and S. 252 Mitigates Competitive Threats

The Telecom Act includes a provision enabling states to exempt rural and small carriers from the requirements of S. 251 and S. 252 of the Telecom Act. In general, to qualify as a "small" carrier, a company must have less than 2% of the nation's access lines, although there is also a way for certain properties to qualify by having fewer than 100,000 lines in a given geographic study area.

S. 251 requires carriers to provide resale service, interconnection, unbundled access, number portability, dialing parity, and access to rights of way. S. 252 governs the negotiation and approval process for the elements of S. 251. An exemption from some or all of the S. 251 requirements significantly limits the threat of potential competition in Century's territories.

Under the act, a telephone carrier must justify to the state any exemptions or suspension of requirements. Essentially, the carrier must prove that an exemption is necessary to avoid a significant adverse economic impact on its telecom customers(an undue economic hardship) and that an exemption is in the public interest. In July 1997, the 8th Circuit Court overturned the burden of proof provision. This decision is currently being appealed to the Supreme Court.

Century has currently had only one request for interconnection, and it was denied because it was determined that it was not in the public interest.

Universal Service Subsidies Are Somewhat Protected

According to the May 1997 FCC order on Universal Service, eligible rural carriers (including Century) will continue to receive Universal Service payments (USF) under the federal support mechanisms currently in effect until 2001. After 2001 payments are likely to be based on forward-looking economic costs. This is extremely important for Century's financial outlook. In 1997 the company received $65 million in USF funds, 7% of total revenues. In 1998, with the addition of PTI, Century's USF payments should rise to $130 million, 8% of revenues. Beyond 1998 we expect USF to increase 5-8% annually.

In addition to traditional USF funding, the FCC established a program to provide discounted telecommunications services to schools, libraries, and rural health care providers. The final amount of this fund is currently being reviewed. All telecommunications carriers providing interstate telecom services are required to pay into this fund, but ILECs are able to recover their contributions in their rates for interstate services.

Century Is Relatively Unaffected by May 1997 Access Charge Reform

The May 1997 access charge order from the FCC, which is now being petitioned for reconsideration and clarification, applies primarily to companies that are federally regulated under price-cap mechanisms. At the federal level, Century is regulated under rate-of-return and is therefore largely unaffected by current access charge reforms. A separate proceeding for rate-of-return companies will be initiated, but because the FCC has its hands full with various appeals and clarifications of the original orders, it will probably be a year or two before much progress is made on access charge reform for rate-of-return companies.

Though Century is regulated under rate of return at the federal level, at the state level, Century has price-cap or another form of regulation in Michigan, Louisiana, and Arkansas, the PTI properties in Wisconsin, and in its largest exchanges in Texas. Century is also currently evaluating a move to alternative regulation in its properties in Wisconsin.

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Highlights from Century's Analyst Meeting
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16 September 1998

Opinion
Century *Telephone* (CTL: Baa1/BBB+) is the tenth largest *local* exchange company and cellular provider in the US. We believe that CTL has a sound strategy and the company continues to successfully dominate its *rural* market niche. We remain neutral, however, on CTL bonds at current levels given the company's willingness to be acquisitive coupled with relatively weak financials for its high triple-B ratings.

Summary
At an analyst meeting in New York City, CTL management highlighted the following points:

© Over the last year, CTL has taken several major steps to achieve its goal of becoming the leading provider of integrated communications services in **rural** America. Not only did the company close its purchase of Pacific Telecom's (PTI: Baa1/BBB+) in December 1997, but it also announced the acquisition of 85,000 access lines from Ameritech in March 1998. We expect that CTL will continue to pursue strategic acquisitions to expand its market clusters.

© CTL's integration of its PTI acquisition continues at a rapid pace. The combination will provide meaningful cost synergies as well as the opportunity for CTL to sell vertical services, internet offerings, wireless and long distance service to PTI's previously untapped customer base.

© ***Local telephone*** operations provided approximately 68% of CTL's total revenue in the second quarter of 1998. The company's primary goal in wireline is to "identify, maintain and increase the yield from our targeted customers through long-term, interactive, value-added relationships." Bundling **local** with other CTL services should help the company retain its key customers.

© Last quarter, CTL's wireless operations achieved cash flow margins of greater than 50%. However, in line with the industry trend, average revenue per unit fell to $56 from $63 in the second quarter of 1997. This decline was partially due to the PTI acquisition, since on average PTI's cellular customers have historically generated lower monthly revenues than CTL's incumbant customer base. Wireless currently represents roughly 27% of CTL's total sales and 31% of operating income.

© CTL stressed the benefits of being a ***rural*** telecommunications provider. Costs, taxes and wages have remained low while ***rural*** America has experienced a resurgance in population growth. Furthermore, competitors have been reluctant to enter ***rural*** areas.

Table 1: Bid Side Spreads

Issuer	Coupon	Maturity	Ratings	Callable	Spread (a)
Century ***Telephone***	6.30%	2008	Baa1/BBB+	NC	+125
Century ***Telephone***	6 7/8%	2028	Baa1/BBB+	NC	+160

(a) Bid side spreads as of September 15, 1998

Pacific Telecom Acquisition

The PTI purchase helped CTL obtain critical mass as an independent telecom provider. The companies had similar strategies in that both historically targeted ***rural*** and smaller urban areas. Their territories have meshed well, giving the companies' a strong presence in the Midwest, the Pacific Northwest and the South. The primary states for ***local*** operations are now Wisconsin (20.4%), Washington (13.8%), Alaska (10.4%) and Michigan (8.7%).

CTL has announced the sale of its entire Alaskan operation (which includes 130,000 access lines, 159,700 cellular POPs and 550,000 PCS POPs) which was originally part of PTI for $415 million in cash. $43 million in debt will be assumed by the new owners, which include four former PTI executives.

The company will use the after-tax proceeds of just under $300 million to reduce bank debt. However, this reduction in leverage will be mostly offset once CTL's previously announced purchase of 85,000 Ameritech access lines in Wisconsin closes.

Financial Review

CTL will continue to invest heavily in its territory to accommodate future growth. Spending will shift in 1999 away from the wireline business as the company begins to launch PCS service in selected markets (see Table 2 below).

Table 2: Capital Expenditure Plans ($mm)

	1998	1999
Telephone	$211	[illegible]
Cellular	67	[illegible]
PCS	13	[illegible]
Other	29	[illegible]
	$320	[illegible]

Source: Century ***Telephone***

The purchase of PTI was a positive move strategically for CTL. However, from a bondholder's standpoint, leverage increased substantially, from 36% as of mid- 1997 to over 60% currently (refer to Table 3). While CTL has reduced debt since the PTI purchase closed in December 1997, debt as a percent of capital and debt- to-EBITDA still remain high for a Baa1/BBB+ credit. Ultimately, the company's capital structure goal is to achieve a leverage ratio of 50%, but reaching this target may be several years away. Because CTL has developed extremely strong rating agency relationships throughout its history, we believe that the agencies have granted the company some leeway in reducing its debt load.

(CTL, PTI) MLPF&S was a manager of the most recent public offering of securities of this company within the last three years.

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STATEMENT OF VERIFICATION

I have read the foregoing, and to the best of my knowledge, information, and belief there is good ground to support it, and that it is not interposed for delay. I verify under penalty of perjury that the foregoing is true and correct. Executed on September 17, 1998.

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